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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:
Simplification of the Depreciation Prescription Process

CC Docket No. 92-296

BELL ATLANTIC'S REPLY COMMENTS

Most commenters agree with Bell Atlantic[1] that some change in the Commission's depreciation represcription process is necessary.[2] As explained in Bell Atlantic's initial comments, the Commission should adopt the Price Cap Carriers Option (Option D in the Notice),[3] as modified and clarified in the comments of the United States Telephone Association ("USTA") and Bell Atlantic.[4] As described below, the objections to the Price Cap Carriers Option raised by other commenters should not be accepted, either because they are without merit

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are The Bell Telephone Company of Pennsylvania, the four Chesapeake and Potomac Telephone Companies, The Diamond State Telephone Company, and New Jersey Bell Telephone Company.

[2] See, e.g., Comments of the General Services Administration (filed March 10, 1993) ("GSA

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or because they have already been addressed in the clarifications to the Price Cap Carriers Option proposed by Bell Atlantic and USTA.

1. **The Price Cap Carriers Option Will Result In Significant Cost Savings.**

Contrary to the suggestions of some commenters, there are large potential cost savings associated with the Price Cap Carriers Option. Some commenters assert that those savings -- which are estimated to amount to $16.1 million annually[5] -- will not represent a large percentage of total telephone company expenses.[6] A savings of this magnitude, however, is significant in absolute terms, and should not be cavalierly disregarded.

2. **The Price Cap Carriers Option Is Most Consistent With The Commission's Policies Promoting Competition And The Prudent Deployment Of New Technology.**

Potential cost savings, however, are not the key reason for streamlining depreciation practices. Instead, the Commission should determine which approach to depreciation practices would bring those practices into line with current Commission policies promoting the rapid increase in competition faced by local exchange carriers and the explosion of new communications technologies available today and anticipated in the near future.

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[5] *See* USTA Comments at 7.

[6] *See, e.g.,* District of Columbia Office of People's Counsel, Florida Office of the Public Counsel, Indiana Office of Utility Consumer Counselor, Pennsylvania Office of Consumer Advocate Comments Concerning Proposed Depreciation Options (filed March 10, 1993) at 10 ("SCA Comments") (estimated cost savings represent a small percentage of carrier revenues).

AT&T, relying on a Commission order now more than three years old, claims that local exchange carriers "are not subject to intense and pervasive competition."[7] This claim, however, ignores much more recent Commission decisions promoting increasingly intense competition for local carriers, such as the decision to require that local carriers allow competitive access providers to collocate in local carrier central offices and the decision to authorize wireless personal communications services. AT&T also ignores its own recent actions which better position it to compete directly with the local carriers, such as its decision to purchase a major stake in McCaw Cellular. In these circumstances, AT&T's opposition to the Price Cap Carriers Option for the local carriers -- while embracing that option for itself -- should be viewed with skepticism.[8]

In fact, for at least the last decade, the Commission has followed a policy of promoting competition in an increasing number of industry segments. The purpose of this policy has been to protect the public interest by relying on market forces, as opposed to direct governmental controls, to the maximum extent possible. The Commission's current depreciation process, however, dates from an earlier era, and, as a result, is inconsistent with today's regulatory policies. AT&T's argument against the Price Cap Carriers Option for local exchange carriers should be rejected because it ignores the substantial *increase* in competitive pressures to which those carriers have been subjected, and to which they will be subjected in the near future.

Today's environment of increasing competition and rapid technological change requires that the Commission's depreciation policy be crafted to avoid interfering with the ability of

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[7] AT&T Comments (filed March 10, 1993) at 9 & n.14.

[8] *See* AT&T Comments at 8-9.

[redacted]

depreciation proposals.[10] Under the Price Cap Carriers Option as envisioned by Bell Atlantic and USTA, however, carriers would continue to determine depreciation using the same basic methodology used today, and would provide sufficient information for meaningful comment and analysis.[11]

b. **The Price Cap Carriers Option Would Not Allow Carriers To "Manipulate" Their Earnings Levels.**

Some opponents of the Price Cap Carriers Option also argue that it would give local carriers the ability to "manipulate" the depreciation levels, in order to reach some target earnings level or for some other purpose.[12] As Bell Atlantic explained, however,[13] this concern is unfounded.

First, the basic premise underlying concerns about "manipulation" is invalid, because if a carrier were to increase its depreciation expense in one year for the purpose of lowering its reported earnings, the result would be strong upward pressure on the carrier's return in

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[10] ***See, e.g.,*** NARUC Comments at 13; SCA Comments at 21-23.

[11] ***See*** Bell Atlantic Comments at 6-8; USTA Comments at 8-14. In this regard, the Price Cap Carriers Option does ***not*** represent a "deregulation" of carrier depreciation rates, ***see*** Comments of the Virginia SCC Staff Comments at 2-3; GSA Comments at 3, or a removal of FCC oversight of carrier depreciation levels, ***id.*** Similarly, it would ***not*** result in the elimination of carrier continuing property records, ***see*** NARUC Comments at 14.

[12] ***See, e.g.,*** NARUC Comments at 12-13; Comments of California at 8-9; MCI Comments at 5-7; SCA Comments at 26; Comments of the Idaho Public Utilities Commission (filed March 10, 1993) at 6.

[13] ***See*** Bell Atlantic Comments at 8-9.

subsequent years, because the initial higher depreciation levels would lower the carrier's rate base. Any "manipulation," therefore, would be inherently short-lived.[14]

Second, as Bell Atlantic suggested in its Comments, carriers could be forbidden from increasing their price caps in order to recover increased depreciation expenses prescribed by the Commission using the streamlined procedures of the Price Cap Carriers Option.[15] This approach would fully protect customers against higher rates driven by allegedly unreasonably high depreciation levels.

Third, under the Price Cap Carriers Option as envisioned by Bell Atlantic and USTA, depreciation proposals would have to be certified as consistent with Generally Accepted Accounting Principles ("GAAP") by independent certified public accountants. This requirement applies to industries throughout the economy today with no ill effects, and could equally well be used to ensure that carriers' regulated depreciation levels are reasonable.[16]

Finally, it would not be difficult for the Commission to eliminate concerns about "manipulation" by imposing reasonable constraints on the carrier depreciation proposals that would be entitled to streamlined treatment. For example, the Commission could require filings to be made during the first quarter of the year, when financial results are too uncertain to allow

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[14] This same logic applies to ICA's concern that carriers want to use increased depreciation rates to provide cash for nontelecommunications ventures. *See* Reply Comments of the International Communications Association (filed April 6, 1993) at 5-6 ("ICA Reply Comments"). If a price cap carrier were to inflate its depreciation expense for *any* reason, the result would be higher reported earnings, and potential sharing obligations, in the following year.

[15] *See* Bell Atlantic Comments at 7 n.18.

[16] GAAP requires that depreciation expense be based on reasonable estimates of the useful lives of equipment. As a result, the requirement that depreciation proposals under the Price Cap Carriers Option comply with GAAP would fully address the concern expressed by several state consumer advocates that the Price Cap Carriers Option would "no longer relate[] depreciation expense to asset consumption." SCA Comments at 26.

carriers to "target" depreciation expense to achieve some independent financial objective. In addition, the Commission could consider imposing specific tests of reasonableness on carriers' proposed depreciation rates, such as an overall limit on the change in a carrier's composite depreciation rate that could be approved on a streamlined basis under the Price Cap Carriers Option.[17]

Conclusion

For the reasons stated above and in Bell Atlantic's initial comments, the Commission should simplify its depreciation prescription process by adopting the Price Cap Carriers option.

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April 13, 1993

[17] *See* Bell Atlantic Comments at 7-9.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Bell Atlantic's Reply Comments" was served this 13th day of April, 1993, by delivery thereof by first class mail, postage prepaid, to the parties on the attached list.

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